

## Affordable Appliances for Paraguayan Microentrepreneurs



### CLIENT

Grupo Electroban SAECA (Electroban) is a Paraguayan retail company that commercializes appliances and home products in base of the pyramid (BOP) segments of the population in the country. The company sells energy-efficient appliances, productive assets such as agricultural tools, and sturdy furniture, and offers financing with flexible repayment schedules to low-income individuals and microentrepreneurs.



### IDB SUPPORT

With a loan of up to US\$6 million from the Inter-American Development Bank's Opportunities for the Majority (OMJ) initiative, Electroban will expand its financing to approximately 15,000 BOP microentrepreneurs so they can buy productive assets that will allow them to consolidate and grow their small businesses. To reach more clients, the company will hire and train an additional 800 low-income individuals as new sales representatives in target communities.



### THE CHALLENGE

Financial services penetration in Paraguay was 22% in 2011, well below the regional average. Very little credit is available to microentrepreneurs, who form a large part of the country's economy, where average GDP grew 4.3% between 2002 and 2011.

It is estimated that about 800,000 Paraguayan microentrepreneurs who would like to obtain credit are unable to do so given the limited supply of financing for this segment. Those who manage to access credit, borrow mainly from microfinance institutions whose focus is short-term working capital lending. However, medium-term lending has proven to be more compatible to the small entrepreneurs' need for buying productive assets like freezers, hair dryers and computers. It is estimated that only 7% of micro entrepreneurs who receive financing use it to buy productive assets. This is a consequence the inappropriate financing terms available in the market.

Private banks are unable to offer longer-term financing to their clients, given the limited supply of long-term funding in the Paraguayan financial system. This, combined with the expense and difficulty of obtaining credit information on BOP consumers with little proof of income or collateral, further restricts credit availability for the improvement of micro-businesses.



### THE SOLUTION

With affordable financing and a wide range of products, Electroban offers a comprehensive solution for microentrepreneurs who range from mom and pop shop owners to smallholder farmers, laundresses, hairdressers, gardeners, or contractors.

Several studies have shown that microentrepreneurs who buy basic equipment for their businesses can have more stable incomes and earn more, hire more workers and have a better cushion against economic shocks.

Electroban has showrooms around the country and reaches out to BOP consumers through a strong door-to-door salesforce in low-income communities and telemarketing. As a result, 85% of sales are via catalogue. All of what is sold is delivered at no charge, eliminating another hurdle for BOP buyers.

Electroban's clients do not leave home to be assessed for a loan. Sales representatives send basic information over their cell phones to the company's IT center. Approvals take 48 hours. This method greatly increases BOP access to financing and allows unbanked clients who demonstrate good payment behavior with the company to start building a history in the financial system.



An estimated 800,000 Paraguayan microentrepreneurs who would like to obtain credit are unable to do so given the limited supply of financing for the BOP segment. Electroban will expand its financing to approximately 15,000 BOP microentrepreneurs so they can buy productive assets that will allow them to consolidate and grow their small businesses.



## INNOVATION MAKES THE DIFFERENCE

Electroban's in-depth knowledge of the BOP market enabled the company to develop its own scoring methodology to assess the creditworthiness of low-income individuals and microentrepreneurs who generally have no paper trail to substantiate their incomes or business cash flows.

When delivering the products it sells, Electroban verifies information about each microenterprise with which it does business. By allowing customers to repay in weekly, bi-weekly or monthly installments tailored to their cash flow, Electroban makes hard-to-obtain financing more accessible to the BOP as its medium-term lines of credit are easier to repay.

In order to provide a value-added service to its customers, Electroban has developed an innovative partnership with the national payment network Pago Express that has around 47,000 outlets in supermarkets and even in the smallest shops in the most remote villages, making it convenient for customers both in cities and in rural areas to repay their loans.





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